

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Topock Elementary School District No. 12**

Year Ended June 30, 2005

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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

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DEPUTY AUDITOR GENERAL

October 15, 2007

Governing Board  
Topock Elementary School District No. 12  
P.O. Box 370  
Topock, AZ 86436-0370

Members of the Board:

We have reviewed the District's audit reports for the years ended June 30, 2004 and 2005, and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2005, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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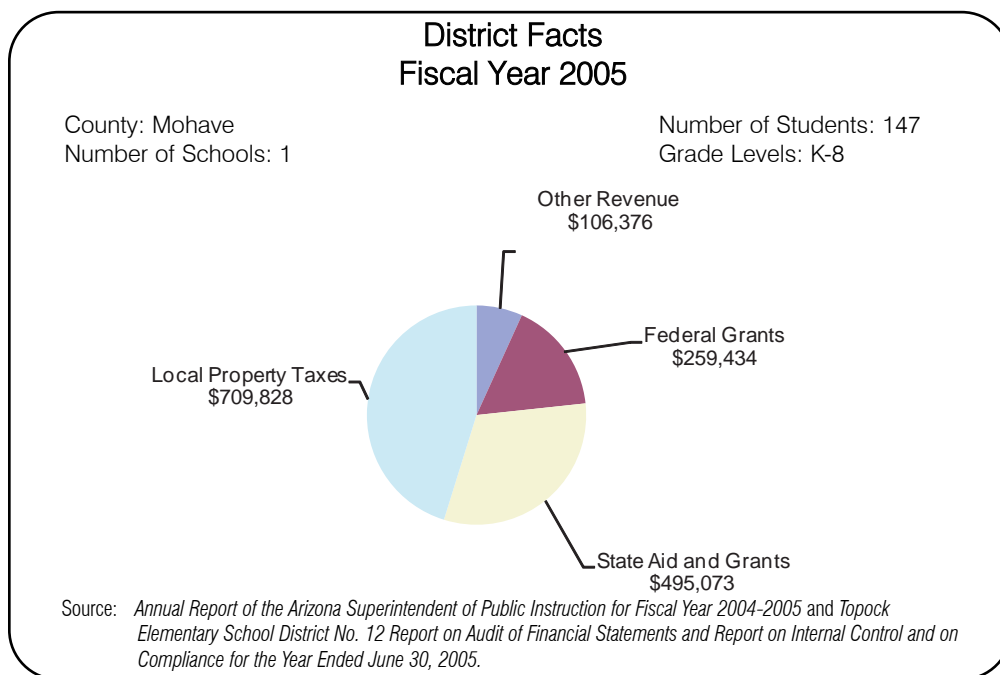


# INTRODUCTION

Topock Elementary School District No. 12 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.5 million it received in fiscal year 2005 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the Uniform System of Financial Records (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2005, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District should strengthen controls over expenditures

The District spends tax dollars to pay its employees wages, reimburse employees' business-related expenses, and purchase goods and services, so it is essential that the District follows procedures designed to help ensure that all expenditures are appropriate and adequately supported. Additionally, the District holds student activities monies in trust and is responsible for the safekeeping and proper use of those monies as well as district monies. However, the District

Since the District did not maintain documentation to support credit card transactions, revolving account disbursements, travel reimbursements, and student activities disbursements, the District's auditors could not determine if district and student monies were used for appropriate purposes.

lacked controls to ensure that District and student activities monies were spent appropriately. Specifically, the District did not always maintain supporting documentation for credit card purchases, Maintenance and Operation (M&O) Fund revolving account disbursements, travel expenditures, and student activities disbursements. Additionally, documentation

maintained for some travel expenditures paid indicated that the expenditures were not appropriate. Further, a check from the student activities bank account was written payable to cash. Finally, the District did not always ensure that adequate cash was available in cash-controlled funds before authorizing expenditures and it recorded encumbrances for the M&O Fund in excess of the fund's unexpended budget balance.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and the USFR guidelines. Specifically, the District did not obtain oral and written price quotations for all purchases requiring them.

## Recommendations

To strengthen controls over expenditures and to comply with School District Procurement Rules and USFR guidelines, the District should perform the following:

- Maintain documentation to support all credit card transactions, including a clear indication of the employee that made the purchase and the specific school purpose served for the expenditure. Credit card receipts and other supporting documentation should be agreed to the applicable billing statement for propriety before payment is made to the credit card company.
- Prepare and retain check requests, vendor invoices, and other supporting documentation for M&O Fund revolving account disbursements.

- Ensure district employees properly prepare travel claims for all travel expenditures.
- Verify that amounts reported on travel claims are for appropriate district purposes, within Arizona Department of Administration limits, and supported by detailed receipts before approving claims.
- Document approval to make disbursements from the Student Activities Fund in each club's meeting minutes. Also, the District should retain documentation to support the disbursements, including club meeting minutes, requisitions, purchase orders, receiving reports, and vendor invoices.
- Checks should be properly completed prior to issuance and should not be written payable to cash or bearer.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures from them.
- Encumber amounts on the Advice of Encumbrance less than or equal to the unexpended budget balance for each levy fund.
- Obtain oral price quotations from three or more vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from three or more vendors for purchases estimated to cost between \$15,000 and \$33,689. If three quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing quotations.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

## The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, the District's auditors were unable to determine if full and partial-day absences were accurately reported as the District did not maintain student sign-in and sign-out logs and the absences in the computerized attendance system did not always agree to the teachers' attendance registers. Also, entry and withdrawal dates in the computerized attendance system did not always agree to supporting documentation, and the District did not maintain withdrawal forms. Finally, students withdrawn for ten

The District may not have received the appropriate amount of funding as membership and absences were not always recorded correctly.



consecutive unexcused absences were not always counted in membership through the last day of attendance.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Ensure that membership and absences reported to ADE are supported by district records, such as entry and withdrawal forms, membership and absence reports, student sign-in and sign-out logs, and attendance registers.
- Assign a second employee to verify that entry and withdrawal dates recorded in the computerized attendance system agree to student entry and withdrawal forms and teachers' attendance registers.
- Prepare and retain a withdrawal form for each student withdrawn to support membership reported to ADE.
- Verify that students withdrawn for consecutive unexcused absences are counted in membership through their last day of attendance

## The District's controls over cash receipts and bank accounts should be strengthened

The District receives cash from various sources and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash and ensure that bank accounts are used only as authorized by statute. However, the District did not have adequate controls over its cash receipts and bank accounts. Specifically, the District did not retain fiscal year 2005 bank account reconciliations and checkbooks or registers for any of its bank accounts. Also, the District did not always maintain documentation to support tax credit donations received. Further, the District did not always maintain prenumbered cash receipt forms and supporting documentation for student activities cash receipts reported on the cash collection report. Finally, the District did not always deposit monies in a timely manner.

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

## Recommendations

To strengthen controls over district and student activities monies, the District should perform the following procedures:

- Maintain checkbooks or registers for all bank accounts.
- Prepare formal monthly bank reconciliations for all bank accounts to reconcile bank and checkbook balances. Also, the District should ensure that bank statements and other reconciliation documentation are retained.
- Prepare prenumbered and numerically controlled cash receipt forms for all district cash and checks received and retain duplicate copies to support amounts recorded on daily cash summaries.
- Ensure that student clubs prepare prenumbered cash receipt forms, tickets, inventory counts, or cash register tapes to document cash collected. Activity or cash collection reports should be prepared, as applicable, to document sales and reconcile cash collected to tickets or items sold. If it is not practical to issue receipts, sell tickets, or count items before and after the sale, such as for bake sales, clubs should still prepare cash collection reports to document cash collected.
- Monies should be deposited intact daily when significant, or at least weekly, in the appropriate district bank account or directly with the county treasurer. Also, monies deposited in the Food Service Fund clearing bank account should be remitted to the county treasurer at least monthly.

## The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. To achieve this objective, management should ensure that its accounting records are accurate and complete and that transactions are properly recorded. However, the District did not fully accomplish this objective. Specifically, the District did not maintain accounting records in accordance with the USFR Chart of Accounts as it misclassified some expenditures, created unauthorized fund accounts, recorded revenues in incorrect funds, and used several funds inappropriately. Additionally, the District did not retain adequate supporting documentation for journal entries. Further, the District did not reconcile capital asset acquisitions to capital expenditures at least

The District's records were not sufficient to determine whether all of its capital assets were on the District's premises.

annually, and the District's stewardship list did not include all information required to track the assets to and from the premises and to ensure adequate property control.

## Recommendations

To help ensure accuracy of its accounting records, the District should record all transactions in accordance with the USFR Chart of Accounts. Also, the documentation for each journal entry should contain explanations, attachments, or references to support the entry, and the signature or initials of the individual making the entry and the official authorized to approve it. In addition, the District should reconcile capital asset acquisitions to capital expenditures by fund. Finally, the District should prepare and maintain an accurate and complete stewardship list that includes all equipment and vehicles costing between \$1,000 and \$5,000. The stewardship list should include the item's description, identification number (tag number), location, and the month and year of acquisition; and should be updated for items acquired, disposed of, or moved at least annually.

## The District should improve its financial reporting

The District has a responsibility to publish and report various budgeted and actual financial information in a timely manner to allow taxpayers and the State to review the District's activities. However, the District fell short of its reporting duties. Specifically, the District did not contract for the 2004 and 2005 biennial audit required by state law until nearly 2 months after the audit reports were due. As a result, the District's audit reports were submitted over a year late. Additionally, the actual expenditures reported on the District's Annual Financial Report (AFR) for the M&O and Food Services Funds did not agree with its accounting records. Further, the District did not submit the AFR to ADE and the county school superintendent by the due date. Finally, the District did not file the publisher's affidavit of publication for the AFR with ADE and did not retain documentation to support when it submitted the final revision of the adopted expenditure budget.

## Recommendations

To improve the timeliness and accuracy of the financial information reported by the District, the District should ensure that it contracts for required audit services in time to allow for completion and submission of the audit reports within 9 months after the fiscal year-end. Additionally, the District should assign a second employee to review the AFR before submitting it to ADE to ensure that actual expenditures reported agree to its accounting records. Further, the District should ensure that the publisher's

USFR §III provides guidance for classifying financial transactions.

USFR Memorandum Nos. 228 and 230 provide guidance on the preparation, publication, and filing requirements for the annual expenditure budget and AFR.

affidavit of publication for the AFR is filed by the Governing Board with the Superintendent of Public Instruction within 30 days after publication. Finally, the District should retain documentation to support the timing of all budget and AFR-related submissions to ADE.